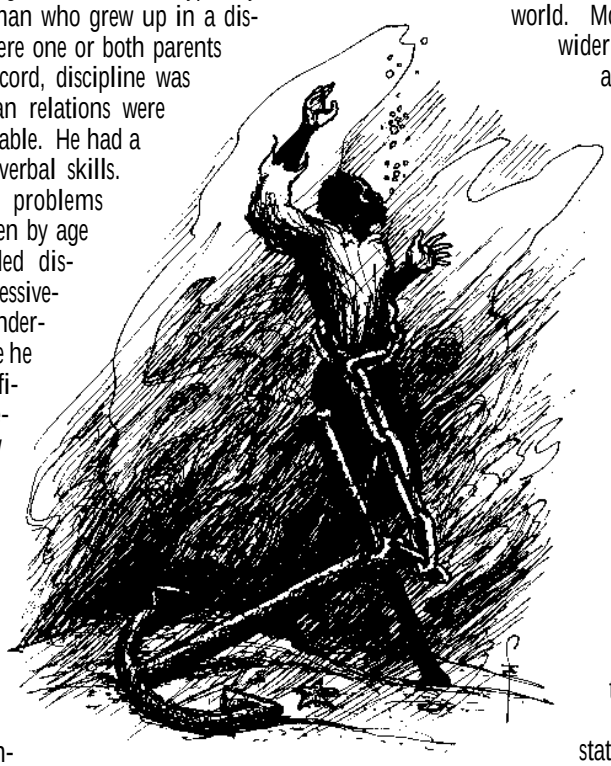
Then there are the public costs. State and local governments spend about $80 billion per year on public safety. That includes police, courts, prisons, and parole systems. There are about 700,000 policemen and an even larger number of private security guards. We have, in effect, become a police state, incarcerating 1.1 million people. Our incarceration rate has doubled since 1980. It is the world's highest–4 times greater than Canada's, 5 times England's, 14 times Japan's.

The Causes of Crime

How to explain the exploding crime rate? Economists are at a loss. Most economic activities are rational. The decision to buy a car, a house, or to go to college, for example, is usually the result of careful calculations. Costs are weighed against benefits. By contrast, criminal activity seems irrational.

The career criminal, according to James Q. Wilson, was long ago identified as: "typically an impulsive young man who grew up in a discordant family where one or both parents had a criminal record, discipline was erratic, and human relations were cold and unpredictable. He had a low IQ and poor verbal skills. His behavioral problems appeared early, often by age eight, and included dishonesty and aggressiveness. Even in kindergarten or first grade he was disruptive, defiant, and badly behaved. He had few friends and was not emotionally close to those associates with whom he began stealing and assaulting."



These social pathologies are not the things economists feel comfortable talking about, at least not professionally. We like to quantify things. We use prices and incomes to explain behavior. Anti-social attitudes don't fit into our economic "models." Indeed, the notion that economic factors alone explain crime doesn't jibe with the facts. Real per capita incomes have doubled since 1960. That should have substantially reduced the crime rate. The male unemployment rate is lower now than it was then. So is the poverty rate. The percentage of people who are church members is about the same. Church attendance rates are higher.

But look closely. The crime rate is increasingly concentrated in the inner city. You are actually *less* likely to be assaulted, raped, robbed, or burglarized today than you were in 1980–unless you are a minority resident of an inner-city neighborhood. For the white middle class, all crime rates except auto theft are down.

But the fear of crime is universal even if the actuality is local. For minorities, rates of all crimes, including homicide, are up. Black males living in these areas are 10 times more likely to die violently than the average American. And inner-city blacks also suffer much higher rates of rape, robbery, burglary, and aggravated assault than do whites.

This is not about race, nor about economics. Yes, the gap between the rich and the poor, who are often minorities, has widened over the past three decades. But our "poor" are the envy of poor people in every other nation in the world. Most countries have far wider income dispersions, along with far lower crime rates.

Social factors, especially the alarming decline in intact families, explain most of the rise of criminality. The percentage of black children born to single mothers has increased from 22 percent in 1960 to *68 percent* today. In inner cities, the figure is typically in excess of *80 percent*. And the newest trend is white illegitimacy, which has exploded from 2 percent in 1960 to *22 percent* today.

Using sophisticated statistical models, economists have at last begun measuring the impact of family dissolution on crime. In 1994, William Niskanen, chairman of the Cato Institute, reported that a 1 percentage point increase in births to single mothers appears to increase the violent crime rate by 1.7 percent. Obviously, the babies themselves aren't committing the crimes. Illegitimacy is merely a proxy for a general decline in moral values and attitudes toward authority. Similarly, Niskanen found that a 1 percent rise in the black or Hispanic population

the poor. The Davis Bacon Act, established in 1931, for example, has effectively taken lesser-skilled workers out of competition for construction jobs that are federally subsidized, ruling that all workers be paid "prevailing," i.e., union wages. When construction companies that are contracted for this work are forced to pay top-dollar wages, they naturally opt to hire highly skilled union workers. This bill, which was unabashedly discriminatory at its inception, continues to this day to block many minority workers and young laborers from desperately needed job opportunities.

Many states are now blazing trails to tap the skills and talents of residents of their low-income communities. Through creative initiatives they are beginning a counter attack on dependency–producing policies by applying strategies of empowerment and devolving authority and resources directly to the people. In Virginia, for example, Governor George Allen has proposed initiatives which would allow the poor to build assets while reducing government expenditures. In one initiative, multi-layered subsidies that had been awarded to developers and syndicates were eliminated, and the state was able to free 84,000 households of the working poor. One mother of two children, working on a poultry farm on Virginia's eastern shore, used this tax savings in conjunction with Virginia's Homestart benefits to pay the down payment so that she could become, for the first time, a homeowner.

Governor Allen has also sought ways to tap the energy and skills of low-income citizens to perform building rehabilitation and plumbing installation in their communities that had previously been given to contractors. This move not only provides newfound employment opportunities for the poor, but also saves taxpayers' money. In the small Appalachian town of Ivanhoe, for example, residents have bid to perform basic plumbing jobs for costs of $6,000 to $8,000. Comparable jobs by union professionals had previously cost the state.

These and similar initiatives that look toward low-income communities in terms of their capacities rather than their deficiencies hold the key to productive budget cuts and a win-win situation for all citizens. Indigenous to every neighborhood in this nation are individuals with the talent, energy, and will to do more with less. It should be the government's role to support and facilitate their efforts.

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For example, last year's bill authorized federal grants to hire 100,000 new police officers. However, no funds were made available for the woefully overburdened court system. Thus while arrest rates may go up, the probability of prosecution will fall, leaving the expected "cost" of crime about where it was before. Worse still, political considerations dictated the dispersal of funds: at least half of all the new police funds were directed to cities with populations under 150,000.

Fighting Crime Effectively

Although crime is a national problem, it is best fought by local initiatives. Unfortunately, Congress doesn't see it that way. The 1994 bill is laden with federal micromanagement. And keeping career criminals off the street is essential to fighting crime. "Three strikes and you're out" is a good start, but it's expensive. Maintaining a single criminal behind bars costs taxpayers at least $25,000 per year. However, the Rand Corporation reports that the average professional criminal commits between 187 and 287 crimes a year, at a cost to society of $2,300 per crime–more than $400,000 a year. So paying for new prisons is really a bargain.

Yet we must remember that the ultimate cause of criminal activity is a breakdown in internal controls–call it character or personal morality. Some people simply never learn the difference between right and wrong. Public policy cannot directly change the internal controls on which human character, and ultimately human behavior, depend. But the criminal justice system can perform the essential role of reminding society that crime is wrong and that it carries serious cosequences.



Robert L. Woodson, Sr. is founder and president of the National Center for Neighborhood Enterprise (NCNE), a non-profit research and demonstration organization based in Washington, D.C. Since its inception in 1981, NCNE has been on the forefront of the movement to empower low-income Americans and has helped pave the way for landmark resident management and public housing ownership legislation.

Mr. Woodson has established an NCNE training center in South Africa, and he also serves as a board member of the American Association of Enterprise Zones, the Commission on National and Community Service, the Commonwealth Foundation, the One to One Partnership, Inc., and the National Association of Resident Management Corporations.

He has edited a number of books and has written articles which have appeared in the *Wall Street Journal*, the *Los Angeles Times*, the *Washington Post* and the *Philadelphia Inquirer*. He has also been a frequent guest on such television programs as *This Week with David Brinkley*, *Nightline*, the *MacNeil/Lehrer NewsHour*, and NBC's *Nightly News*.

"The Jailer Called Welfare"

Robert L. Woodson, Sr.
President, The National Center for Neighborhood Enterprise

Poverty does not create crime. Unemployment does not create crime. In the past, rather than generating social disintegration, times of economic hardship often strengthened the bonds of family, neighborhood, and community.

We must look to find what it is about our response to poverty today that is different from the way we addressed poverty in the past. What is it that has formed a link between poverty, crime, and social deviance? How was it that, in other times, having no money did *not* equate with being in a state of "poverty"? Why do some people recall childhood memories of families pulling together in tightly-knit neighborhoods and then remark, "It wasn't until years later that I realized we were poor"?

In the past, where indigenous community support structures were intact, economic hardship was considered to be more of a temporary challenge than an inter-generational condition. Established community associations and church-affiliated organizations have historically functioned to give relief to the needy on one-to-one basis. It is only within the last thirty years that an institutionalized bureaucracy has developed to administer programs for the poor,

complete with a massive standing base of "dependents."

Throughout the history of the black community, for example, grassroots associations such as mutual-aid societies provided relief for those who were in need. The first of these organizations was the Free African Society founded in Philadelphia in 1787, the members of which contributed one shilling a month for distribution to the needy, with the stipulation that "this necessity is not brought on them by their own imprudence." Throughout the 1800s, mutual-aid societies multiplied throughout the North, and by the 1830s, one hundred such organizations were functioning in the city of Philadelphia alone, with an average membership roll of seventy-five. Mutual-aid societies were also a main source of support for blacks in the South, in spite of obstacles of laws that prohibited blacks from assembling. At the end of the eighteenth century, in addition to providing relief for the needy, these mutual-benefit societies and black churches maintained their own schools. As early as 1790, the Brown Fellowship Society provided educational facilities as part of its mutual-welfare program.

"To date, of the more than $5 trillion that has been poured into anti-poverty programs and agencies, only thirty cents of each dollar has made it to the hands of the poor."

Material Poverty vs. Behavioral Poverty

As the federal welfare system took on the roles that had formerly been fulfilled by indigenous community associations and churches, a major shift occurred. Whereas nearly all previous aid to the poor involved reciprocity, a contribution of work on behalf of any able recipients and a balance of rights and responsibilities, many of the regulations within the federal welfare system actually functioned as disincentives regarding work, savings, and movement toward self sufficiency.

For example, because rates of rent for public housing are calculated as 30 percent of the household income, as residents make economic progress they are, in effect, penalized for any increase in income. Without a cap on rents, in some cases payment demanded for public housing units rose above market rates. In addition, regulations stipulated that welfare recipients could have no more than $1,000 in savings. In one recent case that made headlines, this meant that the mother of a young girl who had taken a part-time job to save for college was fined three times the amount that her daughter had managed to save, and the family was threatened with the termination of all welfare benefits.

Whether or not such regulations were consciously intended to limit the upward mobility of those in the system, they have, in effect, produced a steady "client base" for what has become a literal "poverty industry." To date, of the more than $5 trillion that has been poured into anti-poverty programs and agencies, only thirty cents of each dollar has made it to the hands of the poor. Seventy cents of each dollar has been absorbed by those who "serve" the poor. It is not surprising, therefore, that the system itself has been reluctant to embrace reform.

The thirty-year rein of the Poverty Pentagon has taken its toll on a deeper level than financial stagnation. The system has usurped and weakened the natural indigenous support structures that had existed within low-income communities, such as the family and neighborhood associations. What began as material poverty has evolved now to include, also, a spiritual poverty: a sense of hopelessness and rootlessness.

As a steadily growing barrage of programs was generated from "needs analyses" of low-income neighborhoods, a "welfare class" came to be identified with its deficiencies and was viewed as an isolated, dependent population. Tragically, this "ethos of dependency" penetrated the mindset of many of the welfare recipients themselves, and, surrendering to the regulations of the system, many households found themselves in a cycle of inter-generational dependency.

Who Benefits from Programs for the Poor?

There is a danger in trusting the labels of programs or agencies that purport to serve the "disadvantaged" or poor children. Statistical "portraits" of the poor

and minorities have been continually used to justify trillions of dollars in funding. Yet, as I noted earlier, the lion's share of such funds has been absorbed by a massive bureaucracy of administrators and service providers.

At the same time, under the false assumption that all members of minorities are equally "disadvantaged," programs and policies have proliferated which have benefited, primarily, blacks in the upper and middle income brackets.

With a massive funding stream at stake, various power centers have struggled to maintain "ownership" of poverty-related problems. A virtual poverty industry has now been built on the backs of the poor in which process alone–without regard to product–has been rewarded. Programs and agencies have received funds in proportion to the numbers of clients they hold as dependents rather than the number they have successfully boosted to self-sufficiency.

But our nation's thirty-year $5 trillion anti-poverty campaign should be evaluated primarily in terms of its outcome–the extent to which it has facilitated the efforts of low-income people to achieve independence. An outcome-based analyses of the facts show that our current approach to poverty has been a dismal failure. Although welfare spending (in constant, inflation-adjusted dollars) has skyrocketed by nearly 800 percent from 1965 to 1992, there has been no significant reduction in our nation's poverty rate since the War on Poverty was launched.

Restoring A Natural Support Structure

A true program for reform must go beyond tinkering with various regulations within the system and must look to restoring the functions of the indigenous supporting institutions that exist within low-income communities. Throughout the past three decades, these institutions have been severely weakened. The task of revitalizing the "natural immune systems" of low-income neighborhoods is one that will involve effort, investment, and support rather than benign non-interference.

In addressing the problems of poverty, there are a number of reasons why indigenous activism can succeed where government intervention has failed. First of all, residents of an afflicted community have a firsthand knowledge of the problems, an understanding of the indigenous resources that can be implemented in their solution, and a personal stake in the success of efforts to solve those problems. Second–and most important–community leaders have proven that they are able to address the problems at their root, rather than simply practice damage control.

> "'Thousands of black and Hispanic youths die each year because of the choices they make and the chances they take.'"

The majority of the problems that confront us today–high rates of crime, teen pregnancy, school drop outs and drug abuse–are matters of behavior, the results of choices made in the absence of a clear set of guiding values. As a former health commissioner of Washington, D.C. once said, "Thousands of black and Hispanic youths die each year because of the choices they make and the chances they take." Throughout the nation, grassroots leaders have provided living examples of the values they espouse, and they are proof that it is possible to lead a life of moral integrity, regardless of economic hardships. Through their consistent example, community activists have had the unique capacity to change not only the behavior of youths in their neighborhood but to catalyze an internal change of heart, which results in not merely rehabilitation but conversion among those they serve.

Applying Market Principles to the Social Economy

Currently, America is a nation of two economies. The larger society functions under basic market principles under which innovation thrives and rewards are allocated with regard to outcomes and efficiency. Yet, isolated from this world, another portion of the American population has been trapped on the treadmill of a command economy, held hostage to the poverty industry that has been immune from outcome-based evaluation. This dualism must be ended, and market principles must be applied as we address the problems that confront low-income Americans.

In many cases, simply allowing competition and breaking down the barriers of government regulations will be enough to open realms of opportunity that were previously not accessible to

pushes the violent crime rate up by about 1.8 percent.

Single parent families, and the culture that condones them, are the root cause of most violent crimes. As Charles Murray wrote recently in the *Wall Street Journal*, "Illegitimacy is the single most important social problem of our time–more important than crime, drugs, poverty, illiteracy, welfare, or homelessness because it drives everything else." We do not have the highest illegitimacy rate in the world. Sweden does. Yet crime is not a major problem there. The U.S. differs from the permissive welfare states of Western Europe in having an underclass that is not merely poor, but has few chances of escaping poverty. The inner-city poor are isolated in areas where not working is the norm, crime is commonplace, and welfare is a way of life.

Because the "underclass" is not a census category, we don't know for sure how much crime it causes. But we do know that most crimes are committed by repeat offenders. People who once agreed that the cause of poverty and crime was a lack of money–and the solution was more money–now admit that, at least for the underclass, the problem is not simply money; it is behavior.

The Rational Criminal

If the war against crime depended on our changing this behavior, the prospect would be grim indeed. Such attitudes do not change very rapidly. If attitudes change slowly, then short-run changes in crime rates must reflect something else–perhaps changes in the opportunities or incentives facing criminals.

About 25 years ago, economists began developing a new model of criminal activity. The major breakthrough was the work of Gary Becker, a University of Chicago economist and now a Nobel laureate. In Becker's model, criminals are rational individuals acting in their own self interest. In deciding to commit a crime, criminals weigh the expected costs against the expected benefits. The "cost" of crime to criminals consists of two parts. One is the income foregone by devoting time to criminal activity–the so-called opportunity cost. For most criminals this is very small. They usually are unskilled and uneducated. Legal alternatives usually don't pay as well.

The second, and far larger, cost is the time criminals expect to be incarcerated because of their activity. "Expected punishment" is not the same as the length of time a convicted criminal actually spends in prison. Most crimes never result in an arrest. Many of those arrested aren't prosecuted. Many convicts are paroled. Expected punishment, from the criminal's viewpoint, is a probability, not a certainty.

Take burglary. Only 7 percent of U.S. burglaries result in an arrest according to the National Center For Policy Analysis (NCPA). Of those arrested, 87 percent are prosecuted. Of those prosecuted, 79 percent are convicted. Of those convicted, a mere 25 percent are sent to prison. (Most are paroled.) After multiplying these probabilities, we see that a potential burglar faces only a 1.2 percent chance of going to prison for each act of burglary committed. Once in prison, he will stay there for about 13 months. But since he will escape imprisonment more than 98 percent of the time, the expected "cost" of each burglary to the burglar is only 4.8 days.

The rational criminal will ask himself whether an act of burglary is likely to net him goods worth more than 4.8 days behind bars. If the answer is yes, then his crime pays.

The goal of the criminal justice system is to raise expected costs of crime to criminals above the expected benefits. People will commit crimes only so long as they are willing to pay the prices society "charges." Unfortunately, the expected prices of criminal activity are shockingly low. In 1990, a murderer could expect to spend only 1.8 years of his life in prison for his crime. A rapist could expect just 60 days. A car thief, 1.5 days. If the numbers appear low, the reality is worse. Those crimes with the longest expected prison terms (murder, rape, robbery, and assault) are the least frequently committed, comprising about 12 percent of all serious crime. The remaining 88 percent carry an expected prison term of only a few days.

Despite the enormous rise in criminal justice spending since 1950, the "cost" of crime to the average criminal is lower today. Again, we can look at the figures from the NCPA: Between 1950 and 1974, the expected punishment for all serious crimes fell from 24 days to 5.5 days. The crime rate rose 300 percent over this period. Obviously, criminals themselves were aware of the reduction in expected punishment. They responded to the reduced "cost" of crime by producing more of it. Similarly, during the 1980s, Congress created mandatory minimum sentences for certain violent crimes, urging the states to do likewise. As expected time in prison rose, the crime rate declined. Once again, criminals responded rationally to economic incentives.

Numerous crime bills have tried to increase the costs and reduce the economic incentives to criminal activity. Despite spending enormous sums–$30 billion authorized in the 1994 crime bill alone–they generally have missed their target.

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"The Economics of Crime"

Ed Rubenstein
Economics Analyst, National Review



Ed Rubenstein is an economic consultant and journalist specializing in public policy and tax issues. Since 1988, he has written the popular "Right Data" column in *National Review*, in which he debunks many long-standing myths about the economy. His essays have also appeared in the *Wall Street Journal*, the *New York Times*, *Investor's Daily*, and the *Harvard Business Review*.

During the 1980s, Mr. Rubenstein was the senior economist at W.R. Grace & Co., and a member of the federal Grace Commission on cutting waste in government. His first two books were published in 1994: *The Right Data* and *From the Empire State to the Vampire State* (co-authored with Herb London).

In this issue of Imprimis, *Edwin Rubenstein and Robert Woodson discuss some of the most troubling issues in our society: crime, illegitimacy, and welfare dependency. Their remarks were delivered during Hillsdale's February 1995 Center for Constructive Alternatives seminar, "Crime in America: Fighting Back with Moral and Market Virtues."*

"The Economics of Crime"

Polls show that Americans regard crime as the number one social problem facing the nation. We fear being a victim of violent crime, or having our property violated, far more than we fear being unemployed or suffering a loss of income. Crime far outstrips inflation, the deficit, or any other economic problem. Yet until recently, the economics profession had little to say about the root causes of criminal activity. Economists could do little more than tally the figures. We know, for example, that there were about 34 million criminal acts committed in the United States in 1992–about 94,000 crimes daily. This is a Justice Department estimate. We don't know the exact number, because many, if not most, crimes are not reported.

We do know, however, that the national crime rate–crimes per capita–has tripled over the past 30 years. And at least 71 percent of all violent crimes (rape, robbery, assault, personal theft) involve some kind of economic loss. The direct costs in one sample year, 1992–in cash, cars, and personal property–came to about $18 billion. But this is merely the tip of the iceberg. Crime victims suffer trauma, depression, and fear that inevitably affect their ability to work and help others. These problems can last a lifetime. The total costs to crime victims can, therefore, easily reach $250 billion to $500 billion each year.